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TOP SECRET

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THE SOVIET WORLD -POPULARITY OF CHINESE COMMUNISTS DECLINING AMONG CHINESE IN SOUTHEAST ASIA ----- Page 6 Disillusionment with the Communist regime in China is growing among the overseas Chinese in Southeast Asia. Anti-Communism is not yet an effective force in these communities, because of the from absence of an alternate movement to provide protection form the tightly organized Communists, and because of Southeast Asia's vulnerability to Chinese aggression. SOVIET AID TO COMMUNIST CHINA ------Page 7 Soviet aid to Communist China -- probably extended on the basis of current or future reimbursement rather than in the form of grants -- has included the transfer of military equipment valued probably at over 100 million dollars in the past year. technical assistance from Soviet advisers, a 300 million dollar credit extension, the step-up of Sino-Soviet trade, and the return of ex-Japanese property. PEIPING APPEARS CAPABLE OF FORESTALLING REVOLT BY ANY FIELD ---- Page 10 The Chinese Communist political apparatus now appears to be sufficiently developed to prevent any of the major field commanders from effectively challenging Peiping's authority. The power of each of the military leaders is severely compromised by the strategic position of a party political functionary whose task is to check the military leader at every turn. 25X1 West German political conditions, as they affect American interests and objectives, have deteriorated in the last month. This trend may continue. A series of defeats on important issues might impel Chancellor Adenauer to dissolve the government and seek new elections. Such elections would probably result in strengthening the Socialists and rightists, reducing the chances of securing a coalition as favorable to US objectives as the present one has been.

SPECIAL ARTICLE: INTERNAL PARTY DIFFICULTIES IN YUGOSLAVIA --- Page 16

Differences over internal and foreign policy appear to have developed within the top hierarchy of the Yugoslav Communist Party. The continuation of these differences would aid the spread of Cominformism in Yugoslavia.

THE SOVIET WORLD

In typical Soviet fashion, the Five Power Peace Pact signature campaign in the USSR was inaugurated with a deluge of propaganda against American "aggression."

All major Russian newspapers, backed by the official radio, proclaimed the threat of war to the Soviet and other peoples of the world, in order to stress the urgency of a Five Power Peace Pact. Most of the old, threadbare themes dealing with alleged Western aggressions in Asia and Europe were dredged out of propaganda files for the occasion.

In particular, the US was accused of having designs on Japan and Korea as bases for an attack against China and the USSR. This charge crops up periodically in Communist propaganda, and even before the Korean War the US was allegedly planning aggression from Japanese bases against the USSR and the Far East in general.

Moscow's peace campaign has apparently failed to stir the Soviet people out of their apathy, just as it has failed to fan enthusiasm abroad. As a result, the Kremlin is forced to resort to a combination of alarums and soothing peace proclamations in order to create greater interest in the gymnastics of its Peace Partisans.

After the splurge on US "aggression," Soviet propaganda media resumed their emphasis on "peaceful coexistence," Reacting somewhat definition fensively to the Truman-Morrison charges, Moscow attempted to blame the West for trade barriers and travel and cultural restrictions.

With Gromyko's American trip in mind,	
the suggestion that a Truman-Gromyko meeting	3
be held. During the Paris conference of deputy foreign ministers las	;t
spring, suggested a Truman-Stalin meeting. These sug	5-
gestions are not likely to have been made without official Soviet	
sanction, but Moscow's sincerity may be questioned in the light of the	le
past and present behavior of Soviet diplomatic representatives.	

The Soviet Satellites continue to be plagued with the problem of defection. Two diplomats in Turkey have joined the substantial ranks of Czechoslovak diplomatic defectors. Several other Czech Government employees who have recently escaped into Austria are reported to possess valuable information on the Czech Foreign Office and intelligence organizations.

Poland's vociferously-Communist UN delegate, Julius Katz-Suchy, who has been attending a UNESCO meeting in Switzerland, is reportedly under an ideological cloud. Katz-Suchy lived for many years in Western Europe and has been privately critical of Soviet actions -- both counts

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which make him suspect from the Soviet standpoint.

The East-West trade meetings at Geneva concluded without any modification of the USSR's demands for strategic materials in exchange for Orbit grain, timber or coal. The Soviet delegation evidently had instructions to press for a broader trade meeting, but would not specify any details or indicate readiness to reach ultimate agreement on increased trade with the West.

The USSR has, however, obtained information about Western European needs that may improve its bargaining position in future bilateral talks with Western nations. This was done without divulging very much information on Soviet needs or desires.

Almost the only specific indication of the USSR's requirements was provided by an effort to obtain freighters and tankers from Denmark in exchange for Soviet grain.

Soviet merchant shipping tonnage has been inadequate to meet the USSR's needs, and Moscow has resorted to increased chartering of Western vessels for many purposes. The USSR continues to attempt to utilize ocean transport from European ports in supplying Communist China, thus easing pressure on the Trans-Siberian Railroad and on sources of supply in the Soviet Far East.

The shrewd use by the Polish Government of its surplus coal as a bargaining lever for Western strategic materials is revealed in the Polish-Austrian trade agreement now being negotiated. The Poles are making coal deliveries contingent on the continuing receipt of Austrian ball-bearings on the Western embargo list. The deal, which the Austrians are conducting with the knowledge of US officials, confronts the US with the dilemma of either allowing some strategic East-West trade or filling Western Europe's coal shortage from the United States.

Other reports indicate the continuing efforts of the Orbit countries to obtain strategic goods in Western Europe by clandestine means.

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The deviousness of the methods used by the Orbit to obtain strategic materials in Western Europe is pointed up by a Czech effort to obtain a large amount of tungsten carbide metal-cutting material from Frankfurt. Shipment is to be made through a Dutch forwarding agency's branch office in Antwerp to a Czech agency in Rotterdam. Payment will be made by "some firm in Sweden or Switzerland."

Yugoslavia's Marshal Tito has told several Western officials recently that the increasing severity of the USSR and its Satellites towards Yugoslavia was not a prelude to aggression. Yugoslavi spokesmen

now emphasize that the critical year for an Orbit attack on Yugoslavia is 1952.

Cominformism apparently presents no insurmountable internal problem to the Tito government. The Yugoslav Government seems well able to control the Cominform effort within Yugoslavia, which is directed at organizing an underground and arousing popular dissatisfaction rather than perpetrating open resistance. Available evidence would indicate that the Tito government is also capable of containing the recent upsurge of peasant discontent over collectivization.

POPULARITY OF CHINESE COMMUNISTS DECLINING AMONG CHINESE IN SOUTHEAST ASIA

The once favorable attitude of the overseas Chinese in Southeast Asia toward the Communist regime of China appears to be giving way to one of disillusionment. The growing antagonism toward the Peiping government could significantly alter Communist tactics for expansion in Southeast Asia, for there is considerable evidence that the overseas Chinese communities were counted upon as an important and readily available instrument for the drive to extend Communist control.

The spectacle of Chinese turning away from a Chinese government would not only cost Peiping valuable support and loss of prestige, but would also tend to cause the Burmese and Indonesian Governments to adopt a more realistic policy toward the threat of Communist China.

The squandering of Chinese manpower in the Korean adventure has appalled many overseas Chinese. They are also disgruntled over broken Red promises that properties belonging to them or to their relatives in China would receive preferential consideration in the implementation of land reforms.

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treatment of friends and families in China by the Communists—especially wholesale executions—has developed growing disgust within the overseas communities.

The increasing restrictions on travel to China, contrary to propaganda that the Communists welcomed the return of overseas Chinese, seem to imply that all are suspected of disloyalty. Chinese Communist diplomats, at first warmly received by resident Chinese, have alienated many of the latter because of their participation in subversive activities and their propensity for placing party interests above those of the local Chinese community.

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Finally, Chinese Communist popularity has undoubtedly suffered as a result of an extertion campaign directed from China whereby "contributions" are extracted from the local Chinese, in effect for the ransom of imprisoned relatives, or "back taxes" are demanded to prevent confiscation of property in China.

The development of anti-Communism among the Chinese in Southeast Asia into an effective force, however, is severely handicapped by the absence of a popular alternate movement capable of providing protection from the tightly organized and highly disciplined Communists, and by the vulnerability of Southeast Asia to Communist aggression.

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SOVIET AID TO COMMUNIST CHINA

Russian assistance to China has been a frequent theme of Communist propaganda. It is worth noting, however, that this propaganda never mentions assistance in the form of gifts or grants.

Since the Russians are not backward about advertising their aid, the absence of references to grants suggests that Soviet assistance has been made on the basis of current or future reimbursement.

the USSR is being

reimbursed for non-military assistance. Transfers of military equipment on a grant rather than reimbursement basis may have been made but not publicized because of security and propaganda considerations. Such grants, however, would be contrary to known Soviet dealings with the European Satellites.

The discussion that follows summarizes the various types of Soviet assistance to Communist China. Although these types of aid do not entail the same economic sacrifice to the USSR as would outright gifts, they have required an allocation of scarce technical personnel and goods that the USSR would be loath to make if it did not consider the effort worthwhile as a means of further integrating China into the Soviet Orbit. From China's point of view, although Soviet assistance has not provided the same easy benefits as free gifts, it has meant the acquisition of industrial supplies and equipment that were not otherwise available to the Chinese Communists.

(1) Military equipment: Soviet military aid to China has taken the form of airplanes, radar and communications equipment, anti-aircraft and coastal artillery, military vehicles, tanks, and possibly also naval craft, including submarines. Although firm statistics on the amount of Soviet military aid are not available, figures on present Chinese Communist air strength offer a basis for a minimum estimate. At present, approximately 1,100 aircraft, excluding those Soviet aircraft in the Port Arthur-Dairen area, are based in Manchuria and elsewhere in China. Less than half of these, however, have been tentatively identified as Chinese Communist; the remainder are of undetermined or North Korean subordination, based in Manchuria and sometimes operating over Korea. On the basis of the aircraft figures alone, the value of Soviet military aid to China in the past year would reach at least 50 million dollars.

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Access to the Soviet Union is particularly important to China for items such as machinery, petroleum products and trucks that are difficult to obtain from the West because of export controls. The USSR has also encouraged the expansion of trade between China and the East European Satellites, and strategic items shipped from or transshipped through the Satellite countries have provided a small but useful component of China's imports.

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25X1 25X1 (5) Return of ex-Japanese property: In January 1951, the Moscow radio announced the return to the Chinese of property seized from Japan by the USSR. The transfer of assets covered 302 items, including 188 residences, 47 factories, 33 warehouses, 23 land properties and 11 cinemas, which were located in Dairen, elsewhere in Manchuria and in Peiping. Except for the Port Arthur Naval Base and the Chinese Changchun Railway, the Russians apparently have turned over to the Chinese all former Japanese properties in the northeast, excluding machinery that had previously been dismantled and shipped to the USSR.

In general. Soviet assistance has probably entailed some disadvantages to China. the Chinese have received good prices for shipments to the USSR and have bought cheaply from the Russians, Western observers are inclined to believe that the present terms of trade are not so favorable to the Chinese as in former years. Nevertheless, with Western sources of supply being closed to the Chinese, Russian assistance — no matter on what terms — is needed to support China's economy and assure the military effectiveness of its fighting forces.

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PEIPING APPEARS CAPABLE OF FORESTALLING REVOLT BY ANY FIELD COMMANDER

Each of the major Chinese Communist field commanders — Peng Teh-huai, Liu Po-cheng, Chen Yi and Lin Piao, commanding respectively the 1st, 2nd, 3rd and 4th Field Armies— has been persistently reported as disaffected and contemplating rebellion against the party Politburo. Such action would be consistent with the tradition in China, where political power has always been based directly upon military power, and where regional military leaders have periodically revolted against the central government. The Chinese Communist political apparatus, however, now appears to be sufficiently developed to prevent any of the major field commanders from effectively challenging Peiping's authority.

The four Field Army commanders and the commanders of the other to military districts are all members of the party's Central Committee and of the regime's Revolutionary Military Council, which controls the Chinese Communist armed forces. In all except one case, these military leaders are Chairmen of the Military and Administrative Committee or People's Government of their districts and are also among the Secretaries of the party's regional bureaus. However, in every case, the power of the well-known military leader is severely compromised by the strategic position of a party political functionary whose name is almost unknown outside Communist China.

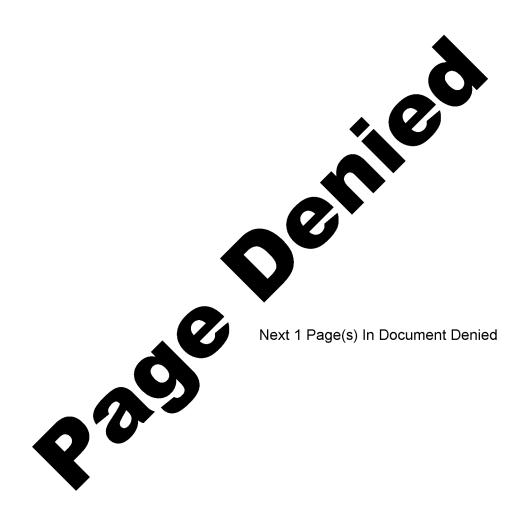
Each of these latter figures, whose public stature is less and whose actual power is equal to or greater than that of the military leader of the district is also a member of the Central Committee and Revolutionary Military Council. Each of them occupies simultaneously three key posts in the district: senior political commissar of the armed forces of the area, First or Second Secretary of the party's regional bureau for the district, and Vice-Chairman (in one case, Chairman) of the district's government.

As political commissars, their authority over the armed forces of their districts is superior to that of the commanders except when the troops are engaged in actual military operations. This authority, combined with that depending on their party and governmental positions, enables these men to check the military leaders at every turn. Corresponding respectively to the 1st, 2nd, 3rd and 4th Field Armies, and to the Northwest, Southwest, East and Central-South Districts, these commissars are Hsi Chung-hsun, Teng Hsiao-ping, Jao Shu-shih and Teng Tzu-hui.

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The commanders of the two other military districts — Nieh Jung-chen in North China and Kao Kang in the Northeast — have also been mentioned as possible leaders of regional rebellions. Their positions are not quite comparable to those of the Field Army commanders. Although Nieh commands the North China Military District Special Army Group, often called the "5th Field Army," his duties appear to be primarily at the national level as deputy Chief-of-Staff. Kao, while holding formally all of the major posts in Manchuria, is not a military man and probably does not have actual command even of the Military District troops in the area.

In any event, available information indicates that the careful division of authority between military commanders and party watchdogs existing in the four districts containing Field Armies has been imposed in these two districts as well.



RECENT POLITICAL TRENDS IN WEST GERMANY ARE CONTRARY TO US INTERESTS

West German political conditions, as they affect American interests and objectives, have deteriorated in the last month. This trend may continue. A series of defeats on important issues might impel Chancellor Adenauer to dissolve the government and seek new elections, thus complicating the problem of associating Germany more closely with other Western European countries.

The Germans, seeking early political freedom, are obviously impatient to throw off Allied occupation controls. For example, they recently defied the Ruhr Authority by establishing a dual pricing system for coal, and by refusing to meet coal export quotas. They are attempting to justify these actions on the basis of their own industrial needs; but meanwhile the plants of other Western European nations are suffering from the shortage of German coal and coke.

West Germany has also reacted sharply to the Allied decision to insist on full payment of occupation costs. The Germans argue that they are already contributing indirectly in numerous ways to Western defense, and that a ten percent reduction in payments to the Allies is therefore justifiable. It is unlikely that there will be any direct German contribution to Western European defense without a substantial financial guarantee from the US, especially in view of the refusal of Finance Minister Schaeffer to raise taxes to meet the increased obligations that would be incurred under a defense program.

West German ratification of the Schuman Plan is by no means certain. The industry-oriented minor coalition parties the Free Democratic Party and the German Party, never enthusiastic about the Plan, are showing signs of an intention to vote against it, or at least to delay action in the Bundestag. Failure by Adenauer to keep his cabinet in line on this issue would have serious consequences not only for the Federal Republic, but for all of Western Europe.

The Saar question will arise again this autumn, with the possibility that Adenauer himself will take up the matter in the Council of Europe. The violent Social Democratic agitation against French policy in the Saar makes it impossible for the chancellor to avoid the topic, although he has made it clear that he will try to prevent the issue from rupturing Franco-German relations.

Labor is demanding an extension of the codetermination principle by which it participates with management in the establishment of plant policies. Last spring, Chancellor Adenauer took the side of labor in introducing this principle into the coal and steel industries, thereby angering the minor coalition parties. If Adenauer were to support labor again, the Free Democrats and the German Party might feel forced to leave the government. Meanwhile, popular discontent is being whetted by rising prices and the government's disinclination to interfere with the economic processes through controls or further subsidies.

The government will face vigorous opposition by the Social Democrats whenever it seeks Bundestag endorsement of rearmament, and an active government propaganda campaign will probably be necessary to win the support of the public, including the former members of the German armed forces. The government itself will insist on being granted virtual internal autonomy as a condition for any agreement to recreate the armed forces. It may, however, accept the reservation of special Allied rights growing out of the split of Germany and the four-power agreements to maintain occupation forces there.

Collectively, the foregoing developments may:

- (1) jeopardize passage of the Schuman Plan;
- (2) delay Germany's agreement to join the European Defense Forces (Pleven Plan);
- (3) stimulate ultra-nationalist elements; and
- (4) force the Adenauer government into a series of compromises with the coalition parties—as well as with the SPD opposition—that will progressively weaken its ability to cooperate effectively with the US.

In case Adenauer should decide on dissolution of the government and on new elections, the result would probably be a strengthening of the Socialists and rightists. This would reduce the chances of securing a coalition as favorable to US objectives as the present one has been.

SPECIAL ARTICLE

INTERNAL PARTY DIFFICULTIES IN YUGOSLAVIA

Differences over internal and foreign policy appear to have developed within the top hierarchy of the Yugoslav Communist Party. The continuation of these differences would aid the spread of Cominformism in Yugoslavia.

Arrests of Yugoslav officials on charges of Cominformism in recent months have been more numerous than at any time since the large scale roundup of pro-Soviet Yugoslavs at the time of the Yugoslav-Cominform break in June 1948. Recent arrests have been confined largely to Yugoslav economic officials, but some military personnel have also been involved.

The failure to hold a party congress, which according to the party by-laws should be convened this year, and the reiteration of the theme that Marxism-Leninism is merely a guide to action and not a dogma may be further indications of internal party difficulties. There has been no parallel increase in overt Cominform subversive or terroristic activities, however, and there are indications that the government will prevent Cominformism from becoming a real threat to its continued existence.

At the time of the Tito-Cominform break in June 1948, Yugoslav authorities moved rapidly to apprehend all suspected Cominformists. Two Politburo members were arrested and imprisoned a few weeks prior to the break, and several other leading Yugoslav figures were seized immediately thereafter. No further arrests of important officials occurred until the fall of 1950, however, and there was little evidence that Cominformism constituted an important problem for the regime.

During the fall and early winter of 1950-1951 there were several arrests of officials charged with committing economic sabotage on behalf of the USSR; the evidence, however, indicated that the accused were not Cominformists but rather scapegoats for the regime's economic failures. In February 1951, a large scale purge of party members reportedly began in Croatia. Units of Tito's Elite Guard, estimated at 1,500, were moved from Belgrade to Zagreb, Croatia, apparently as a security measure. The US Consul in Zagreb learned from a reliable source that the Yugoslav Government had frustrated a "revolutionary plot" among army officers in Zagreb and Sarajevo. As possible substantiation of this report, a Yugoslav official told a Western diplomat that Tito's remarks about Cominformism within the army in a February speech referred to the arrest six weeks earlier of five or six fairly high ranking army officers.

In May a reliable US correspondent reported to the US Embassy in Belgrade that a secret trial of twenty-three Yugoslav Army officers was held that month in the Belgrade Military Court. All except one of the defendants were reportedly arrested in January, and it is possible that this group may be the one referred to by the Yugoslav officials Trials in March and May of Yugoslavs accused of spying for Hungary and Czechoslovakia involved some army officers.

The Officers Academy at Sarajevo was purged during May on suspicion that Cominformist cells existed in the institution.

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In June 1951, Yugoslav Security Police Chief Rankovic announced that in the past three years 8,403 persons had been arrested for Cominformism. Of this number, he reported 3,178 had been released and fewer than 50 rearrested.

Since May 1951 arrests have primarily involved high officials in the economic field. The former president of the metallurgical workers syndicate was seized in May on charges of maintaining contact with the Cominform underground in Belgrade. This arrest was followed in June by the imprisonment of the Assistant Ministers of Finance and Agriculture. Both held positions in which they were familiar with the US aid program. In mid-July a number of middle level employees in various governmental agencies were reliably reported arrested for Cominformism.

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fairly well defined differences of opinion have developed within the Politburo over Yugoslavia's external and internal policies. An orthodox group reportedly opposes the improvement in Yugoslav relations with the West because of the adverse effects this policy may have on the party's socialist objectives. They believe that the trend in internal policy away from traditional Soviet forms and concepts damages the party's principles and security.

As the regime has progressively aligned itself with the West and adopted some ostensible reforms, internal party problems have undoubtedly increased. In a February speech to a branch of the Communist Party, Tito showed awareness of this problem and made a major effort to convince party members that Western rapproachement was necessary. Tito stated that the appearance of Cominformism within the party should not be interpreted as the beginning of a trend that had some "theoretical justification" and that it would not be tolerated. This and subsequent warnings indicate that many of the recent arrests probably results from intensified police efforts to ferret out potential Cominformists.

The discussions within the party that have been necessary to explain the government's new orientation have probably been heated and may have resulted in the uncovering of some suspected Cominformists. The more orthodox Communists have possibly been convinced of the Kremlin charges that Tito is abandoning socialism. Other party members who were loyal to Tito may have become disaffected by the slowdown in industrialization plans and the belittling of some phases of the Communist program.

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Loss of government jobs by some party members because of the decentralization program may also have caused some disaffection. It is significant that the more recent arrests have been confined largely to personnel in economic fields — an area in which enormous confusion has reigned and in which most of the recent reforms have occurred. Some of these arrests may be attributed to the standard Communist technique of finding a lesser figure to blame for high-level bungling.

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Cominform propaganda material has been successfully smuggled into Yugoslavia from Trieste as well as from the bordering Cominform states. Yugoslav authorities allege that Cominform propaganda has also been floated into Yugoslavia via the Danube and other rivers. The Cominform states have utilized their Danube shipping to smuggle propaganda into Yugoslavia and to gather information.

The task of orienting its supporters to accept the country's alignment with the West and the temporary abandonment of much of its socialist program is one of the Tito regime's severest tests. The success of the Yugoslav Security Police in ferreting out suspected Cominformists attests to its ability to deal effectively with the problem. Although there will undoubtedly be further arrests as the regime moves closer to the West, available evidence indicates that the government will be able to prevent Cominformism from becoming a real threat.